

## Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 ONY-00 /013 W  
-----003660 160832Z /11-R  
R 160755Z MAR 78  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC 6191

C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 04246

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E.O. 11652: GDS  
TAGS: PFOR, ECON, JA, US  
SUBJECT: FOLLOW-UP PAPER ON EA ECONOMIC POLICY REVIEW ON  
JAPAN

REF: STATE 049573

1. SUMMARY: WE CONCUR IN THRUST OF SUBJECT PAPER DIS-  
CUSSED AT FEB. 16 JAPAN POLICY REVIEW. WE NOTE: A CASE  
OR TWO WHERE OUR OBJECTIVES MAY CONFLICT, SENSITIVITY OF  
GOJ TO DISCUSSION OF GROWTH, AND HIGH (THOUGH NECESSARY)  
COST TO JAPAN OF ECONOMIC RESTRUCTURING. END SUMMARY.

2. EMBASSY CONCURS IN BROAD THRUST OF FEB. 16 FOLLOW-UP  
PAPER ON ECONOMIC POLICY TOWARD JAPAN. EMPHASIS ON  
REALIZATION OF THE GOALS AND OBJECTIVES OF THE STRAUSS-  
USHIBA STATEMENT IS PROPER AND, MORE IMPORTANT, PROVIDES  
A SOLID BASE ON WHICH TO PLAN AND PROGRAM. WE STRONGLY  
SUPPORT THE CONSENSUS OF MEMBERS OF THE REVIEW GROUP THAT  
OUR APPROACH SHOULD BE AND BE SEEN AS COOPERATIVE, NOT  
CONFRONTATIONAL.

3. THE SUMMARY AND CONCLUSIONS OF THE REVIEW GROUP ARE  
SOUND. WE NOTE SOME POINTS WHERE CONFLICTING OBJECTIVES  
MAY EXIST. REDUCTION OF JAPAN'S CURRENT ACCOUNT SURPLUS  
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WITHOUT RESTRICTING EXPORTS IS BASIC TO OUR OVERALL  
POLICY, BUT PROBLEMS IN PARTICULAR INDUSTRIES DO ARISE  
AND WE MAY BE COMPELLED TO ACT, OR TACITLY AGREE WHEN  
JAPAN ACTS, TO LIMIT EXPORTS OR THE GROWTH OF EXPORTS.  
JAPANESE AUTOS TO THE UK AND THE U.S. ARE AN EXAMPLE.  
IT WOULD NOT BE IN JAPAN'S INTEREST TO EXPAND EXPORTS  
OF AUTOS SO FAST AS TO PROVOKE AN INJURY CASE BEFORE THE

ITC, OR PRESSURE FOR RESTRICTIVE LEGISLATION. WE HAVE NO ELEGANT SOLUTION TO THIS DILEMMA, AND ONLY NOTE THAT IT IS BOUND TO ARISE.

4. RE PARA 8 ON ENCOURAGING JAPAN TO INCREASE GROWTH, WE MUST BE CAUTIOUS HOW WE GO ABOUT IT. THIS IS AN AREA WHERE THE JAPANESE ARE PARTICULARLY SENSITIVE, AND THE LOGIC OF OUR ARGUMENTS ONLY ADDS TO THEIR DISCOMFORT. WE WILL HAVE TO BE SYMPATHETIC WHEN THEY RECITE THEIR LITANY OF DIFFICULTIES, AND PROVIDE AS MUCH ENCOURAGEMENT AND AS LITTLE CRITICISM AS POSSIBLE. THEY KNOW ABOUT AS MUCH AS MOST GOVERNMENTS DO ABOUT HOW TO MANAGE AND STIMULATE GROWTH, AND IT IS ONLY NECESSARY FOR US TO DISPLAY OUR CONCERN TO GET THE MESSAGE ACROSS. THE FUKUDA GOVERNMENT HAS AT LEAST AS MUCH INTEREST AS WE HAVE IN GETTING THE JAPANESE ECONOMY ON THE MOVE. WE EXPECT JAPANESE WILL EVENTUALLY BECOME MORE RELAXED ABOUT DISCUSSIONS OF GROWTH, BUT IT WILL TAKE TIME. MEANWHILE, THEY WILL BE WATCHING US AND OTHER OECD GOVERNMENTS TO SEE WHAT EMERGES AS OECD POLICY.

5. PARA 10 ON JAPAN'S INDUSTRIAL STRUCTURE RAISES JAPAN'S MOST DIFFICULT PROBLEM. READJUSTMENT IS UNQUESTIONABLY NECESSARY; THE SOCIAL AND ECONOMIC COSTS WILL BE HEAVY, ESPECIALLY AT THIS TIME WHEN GLOBAL GROWTH IS AT REDUCED LEVELS. THE BASIC DIRECTION OF THE RESTRUCTURING SHOULD

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BE AWAY FROM EXPORT DEMAND AND TOWARD INTERNAL DEMAND EXPANSION, ESPECIALLY IN THE TERTIARY SECTOR. WE SHOULD EXPECT, HOWEVER, THAT SOME INVESTMENT IN NEW EXPORTS WILL OCCUR. NO INVESTMENT AT ALL WOULD IN A FEW YEARS LEAVE JAPAN HOPELESSLY UNCOMPETITIVE INTERNATIONALLY. SIGNS OF JAPANESE RESTRUCTURING SHOULD SOON BECOME MORE NUMEROUS. THE EIDAI BANKRUPTCY IS ONE. PLYWOOD MANUFACTURING AND SOME PARTS OF THE CONSTRUCTION INDUSTRY ARE OVERCROWDED AND OVER BURDENED BY LAND COST PROBLEMS. A SHAKEOUT IS NECESSARY IN SEVERAL INDUSTRIES, BUT IT THICKENS THE GLOOM WHICH DISCOURAGES NEEDED NEW INVESTMENT AND LEAVES UNEMPLOYED MANY WORKERS NOT EASILY ABSORBED ELSEWHERE.

6. PARA 10 AND PARA 18 RAISE SERIOUS QUESTIONS OF BOTH SUBSTANCE AND STYLE AS TO OUR FUTURE RELATIONS WITH JAPAN. TO START WITH STYLE, JAPAN WOULD QUITE PROPERLY BE RESENTFUL OF ANY SUGGESTION THAT THE USG WAS TRYING TO DICTATE THE FUTURE SHAPE OF JAPAN'S INDUSTRIAL STRUCTURE. JAPAN, WITH CONSIDERABLE JUSTIFICATION, PRIDES ITSELF ON THE SKILL WITH WHICH PRIVATE ENTERPRISE, MITI, AND KEIDANREN, WORKING VIA JAPANESE CONSENSUS PROCESS, ATTEMPT TO PROJECT FUTURE PROFITABLE PROSPECTS, DOMESTI-

CALLY AND ABROAD. THE HISTORY OF TEXTILES, CHEMICALS, STEEL, SHIPBUILDING, AUTOS SHOW SOMETHING OF THE STRENGTHS AND WEAKNESSES OF THE ARRANGEMENTS.

7. "REVIEW OF IMPLICATIONS OF JAPANESE PLANS" ASSUMES THAT BOTH WE AND THEY HAVE SOME POWERS TO CONTROL THE PLANS AND ASPIRATIONS OF OUR RESPECTIVE INDUSTRIES. EMBASSY WONDERS IF THIS IS REALISTIC. DO WE HAVE A MAN-DATE FROM THE U.S. AUTO INDUSTRY OR IBM, FOR EXAMPLE, TO NEGOTIATE THEIR MARKET SHARE IN THE MARKETS OF THE WORLD? WE HAVE GRAVE DOUBTS ABOUT THE ABILITY OF U.S. BUREAUCRATS

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C O N F I D E N T I A L SECTION 02 OF 02 TOKYO 04246

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TO COME UP WITH TRULY USEFUL INFORMATION IN THIS REGARD. OUR TRACK RECORD IN PREDICTING GROWTH IN THE SOPHISTICATED OECD COUNTRIES, AND THEREFORE OF HOW MANY COMPUTERS OR AUTOS THEY MAY BUY IN 1984, DOES NOT INSPIRE CONFIDENCE. IN OTHER WORDS, WE SHOULD PROCEED CAUTIOUSLY IN OUR PUBLIC ADVICE TO GOJ, AND BE SURE ANY EFFORTS IN THE DIRECTION OF MULTILATERAL ECONOMIC PLANNING ARE CARRIED OUT MULTILATERALLY AND NOT BILATERALLY.

8. AT THE SAME TIME WE SHOULD GIVE THE JAPANESE CREDIT FOR SUCCESSFUL RESTRUCTURING PLANS WHICH WILL ASSIST INTERNATIONAL ECONOMIC COMITY.

9. REGARDING TRADE FACILITATION COMMITTEE CASES (PARA 17), THE NEED FOR "SPEEDY RESOLUTION" IS EVIDENT BUT MUST BE BALANCED WITH THE NECESSITY FOR FAVORABLE ACTION. MANY CASES WILL BE COMPLEX AND DIFFICULT, AND THE ONLY QUICK ANSWER THE GOJ MAY BE ABLE--OR WILLING--TO GIVE MAY HAVE TO BE "NO." CONTINUING CONSULTATION AND COOPERATION WILL BE REQUIRED. MANSFIELD

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